



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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COMMISSION APPROVES SETTLEMENT WITH UBS PAINE WEBBER AND UBS WARBURG Arizona to receive \$395,321 from agreement

PHOENIX – Today the Arizona Corporation Commission voted 4 to 1 to approve the state's participation in the global settlement with Wall Street firms, UBS Paine Webber, Inc. and UBS Warburg, LLC. The alleged conflicts of interest arose when analysts recommended stocks that may have been improperly influenced by their investment banking colleagues' research practices.

This settlement marks the second of ten cases to be hammered out by state regulators. Merrill Lynch was the first settlement, approved by the Commission in January of this year. Similar to Merrill Lynch, the UBS investigations focused on the alleged conflicts of interest that arose with research analysts who were improperly influenced by their investment banking colleagues to produce exaggerated and unwarranted stock recommendations.

The state has already received via wire transfer the \$395,321 representing the fine amount. Additionally, \$39,532 from UBS will be deposited in the Investor Protection Trust to be used for investor education programs in Arizona.

Attorneys from the Commission's Securities Division led the investigation of UBS Paine Webber and were assisted by staff from Connecticut and Oklahoma. Illinois officials took the lead in the UBS Warburg case.

The Commission found that UBS research analysts were deeply intertwined with the marketing of their companies' investment banking business. The investigation also found that the firms created an environment which encouraged research analysts to participate in investment banking activities and would receive

compensation for such efforts. For example, research analysts would often attend investment banking-sponsored “road shows” related to public offerings or other investment banking transactions.

The Commission found that analysts participated in UBS’ efforts to win investment banking business. As a result, the analysts produced research reports that were neither objective nor independent. UBS failed to disclose this conflict of interest to potential investors.

As part of the settlement, UBS agreed to implement changes to its research and investment banking practices. In part, these changes include:

- Creating a physical separation and computerized firewall between research analysts and investment banking to prevent the intentional and unintentional flow of information.
- Separating compensation for research analysts from the UBS investment banking business.
- Disclosing on all UBS research reports any investment banking compensation received from the companies being covered.
- Establishing an independent Research Recommendation Committee to ensure the veracity of UBS research recommendations.
- Prohibiting research analysts from soliciting investment banking business and participating in promotional “road shows.”
- Designating an independent monitor to ensure compliance with the provisions of the agreement.

The settlement was approved with four commissioners voting in favor of the settlement. Commissioner Jim Irvin opposed the agreement. This concludes Arizona’s investigation and any actions the Commission could take regarding UBS’ past research practices. The settlement does not preclude individual investors from pursuing private or class-action litigation with UBS.

For further information regarding the Commission orders and press releases on the global settlement, visit the Division website at www.ccsd.state.az.us and click on either Enforcement or Press Releases 2003.

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Comments from commissioners voting in favor of the action

Commission Chairman Marc Spitzer: “There is no doubt that there is a lack of confidence in the financial markets. Individual investors feel that ‘the game is rigged.’ While perhaps not perfect in every way, this and the other settlements seek to right the wrongs and correct the balance so consumers gain access to fair and objective information. I take some comfort in the fact that these settlements provide a roadmap that will be helpful to private litigants that may seek to take action against these same firms for the personal harm to their portfolios.”

Commissioner Bill Mundell: “Whether you call it securities fraud, analyst fraud or investment fraud, it’s still fraud. It’s dishonest and unethical behavior. It may be that in order to get the attention of the Wall Street executives who sanctioned these unethical acts, some people need to go to jail. Until then, I believe the reforms outlined in this settlement provide many of the safeguards necessary to reform the way business gets done on Wall Street as well as on Main Street.”

Commissioner Jeff Hatch-Miller: “Unethical, misleading communications by trusted American securities firms have undermined and threatened the confidence of investors in the American economy. The settlement agreement centers on civil charges that UBS Paine Webber and UBS Warburg routinely issued overly optimistic stock research to investors in order to win favor with clients and gain their lucrative investment banking business. I hope this action is a solid and effective step in restoring investor confidence.”

Commissioner Mike Gleason: “I believe this settlement provides investors with three key benefits. Number one, the fines are significant – we hope it gets the attention of the corporate bosses to make them shape up. Two, the settlement changes the way the companies are regulated and establishes a firewall between the analysts and investment bankers. Finally, the settlement will hopefully give people confidence in the market and in the regulators who are charged with ensuring access to fair, honest, accurate information.”

Comments from commissioners who voted against the settlement

Commissioner Jim Irvin: “While the order had many good and positive points, I don’t believe it went far enough. The companies made profits greater than the fine amount and consumers who actually lost money are not being made whole. Sure, corrective action is warranted but I don’t believe that settlement agreements are a

good method of regulation. I believe a rulemaking would be more appropriate. Therefore, I cannot vote in favor of it.”

To reach any of the Commissioners’ offices, call the main reception desk at 602-542-2237.